

**LEMON GROVE CITY COUNCIL
AGENDA ITEM SUMMARY**

Item No. 2
Mtg. Date July 17, 2018
Dept. Public Works

Item Title: Participation in the Pension Rate Stabilization Program to Pre-Fund Pension Obligations

Staff Contact: Lydia Romero, City Manager, Mike James, Assistant City Manager/Public Works Director, and Molly Brennan, Finance Manager

Recommendation:

Adopt a resolution (**Attachment B**) authorizing participation in the Pension Rate Stabilization Program administered by Public Agency Retirement Services to pre-fund pension obligations.

Item Summary:

At a City Council workshop on November 8, 2017, Bartel Associates, LLC, presented the actuarial valuation of the City's pension plan with CalPERS. The presentation outlined the City's pension Unfunded Actuarial Liability (UAL) as of June 30, 2016 that totaled approximately \$7.4 million. The presentation also outlined options that the City Council may consider to pre-fund the UAL.

As directed by the City Council, staff performed an initial analysis (**Attachment A**), conducted interviews with three firms, researched the benefits and drawbacks of participating in a pre-fund pension program, and concludes with a recommendation to partner with Public Agency Retirement Services (PARS) to support ongoing financing to pre-fund the City's UAL debt.

Fiscal Impact:

None.

Environmental Review:

☒ Not subject to review

☐ Negative Declaration

☐ Categorical Exemption, Section | |

☐ Mitigated Negative Declaration

Public Information:

☒ None

☐ Newsletter article

☐ Notice to property owners within 300 ft.

☐ Notice published in local newspaper

☐ Neighborhood meeting

Attachments:

- A. Staff Report
- B. Resolution
- C. PARS Private Letter Ruling from IRS
- D. PARS Investment Portfolios
- E. PARS Background Information

Attachment A

LEMON GROVE CITY COUNCIL STAFF REPORT

Item No. 2

Mtg. Date July 17, 2018

Item Title: Participation in the Pension Rate Stabilization Program to Pre-Fund Pension Obligations

Staff Contact: Lydia Romero, City Manager, Mike James, Assistant City Manager and Molly Brennan, Finance Manager

Background:

At a City Council workshop on November 14, 2017, Bartel Associates, LLC, presented the actuarial valuation of the City's pension plan with CalPERS. The presentation outlined the City's pension Unfunded Actuarial Liability (UAL) as of June 30, 2016, which is \$2.0 million for the Safety Plan and \$5.4 million for the Miscellaneous Plans, totaling \$7.4 million. Cost projections for the pension plan over a 30-year horizon were also detailed. These amounts are further compounded with the anticipated discount rate reducing during the next three-year period:

CalPERS Discount Rate			
	Rate	Initial	Full
June 30, 2016 Valuation	7.375%	FY 2018-19	FY 2022-23
June 30, 2017 Valuation	7.25%	FY 2019-20	FY 2023-24
June 30, 2018 Valuation	7.00%	FY 2020-21	FY 2024-25

A variety of options were discussed, including participating in a Section 115 Trust Program, to potentially mitigate the City's pension cost increases over time. Subsequently, the City Council reviewed the benefits offered by a Section 115 Trust Program to pre-fund pension liabilities. Below is a summary of the potential benefits of a Section 115 Trust Program:

1. Local Control over Assets,
2. Pension Rate Stabilization,
3. Investment Flexibility,
4. Addresses Unfunded Pension Liabilities, and
5. Improved Credit Rating.

The City Council directed staff to gather additional information from the three vendors Keenan & Associates, Public Agency Retirement Services (PARS), and Public Financial Management Group (PFM) discussed in the report provided by Bartel Associates, LLC. Staff conducted interviews with all three vendors, and at the completion of the selection process recommends PARS as the best program that will fit the City's needs at this time.

Attachment A

Discussion:

A Section 115 irrevocable trust designed for agencies to pre-fund rising pension costs and address pension liabilities. This program is a relatively newer method for local governments in California. As previously mentioned, three vendors were recommended by Bartel Associates, LLC for staff to contract to determine what type of program each has.

To date, the most widely adopted Section 115 Trust Program to pre-fund pension liabilities for government agencies has been the plan administered by PARS's Pension Rate Stabilization Program (PRSP). PARS provides the security of a private letter of ruling (PLR) from the IRS that assures participants of the tax-exempt status of their investments. PARS also allows the flexibility of the City's participation in selecting the investment strategies and portfolios for its funds, giving the City control on target yield and level of risks on its investments. In addition, PARS has partnered with U.S. Bank to serve as trustee for this program.

Although Keenan and PFM are options to provide a Section 115 Trust Program for the City, staff is recommending PARS be designated as the City's Section 115 Trust Program provider at this time. The core business and retirement programs administered by PARS are more appropriate to the needs of the City. PARS offers a successful track record of investment experience serving public agencies, flexible investment options with five investment strategies, and the ability to diversify and customize investments in a prudent fashion.

Most importantly, PARS provides full services to administer the City's Section 115 Trust Program with a dedicated Senior Consultant to ensure superior client satisfaction; a Client Services Coordinator to monitor contributions, process disbursements and coordinate annual reviews; and an Investment Management Team to assist with developing an Investment Policy Statement and conduct periodic onsite review of investment performance and market conditions.

PARS's Investment Portfolios

PARS's PRSP has five investment portfolios: Capital Appreciation, Balanced, Moderate, Moderately Conservative, and Conservative. Each portfolio has different risk profiles with different amounts invested in equities and other instruments. The investment portfolios range from "Capital Appreciation" with 72 percent of funds invested in equities to "Conservative" with 15 percent of funds invested in equities. It is important to note that as the amount of equities increases, risk and volatility increases. In contrast, as the amount of equities decreases, risk and volatility decreases.

Approximately 31 percent of public agencies participating in the PARS's PRSP have selected the "Moderately Conservative" portfolio which is the second most conservative portfolio with 30 percent of funds invested in equities. Returns as of March 2018 in the "Moderately Conservative" portfolio were as follows:

- 1-Year Returns 5.73%
- 3-Year Returns 3.83%
- 5-Year Returns 4.47%

Through the deposit of funds into the PRSP, the City could expect to earn a rate of return greater than what would be attained through the City's investment with the State's Local Agency Investment Fund. The higher return is made possible because the Section 115 Trust Program is not prohibited by the State law from making purchases of higher yield equities.

Attachment A

The table below compares investment returns from:

1. PARS/HighMark Capital Management,
2. Local Agency Investment Fund, and
3. San Diego County Investment Pool.

PARS/HighMark Capital Management Returns as of 3/31/2018				
Risk Tolerance Portfolios	% Equity	1-Year Returns	3-Year Returns	5-Year Returns
Capital Appreciation	65-85%	11.28%	7.18%	8.77%
Balanced	50-70%	9.98%	6.11%	7.22%
Moderate	40-60%	8.34%	5.37%	6.28%
Moderately Conservative	20-40%	5.73%	3.83%	4.47%
Conservative	5-20%	3.69%	2.72%	3.71%

Local Agency Investment Fund (LAIF), State of California			
	2017	2016	2015
1-Year Earning Rates ending December 31st	0.754%	0.434%	0.269%

San Diego County Investment Pool			
	2017	2016	2015
1-Year Earning Rates ending December 31st	1.29%	0.85%	0.588%

Fiscal Impact

Establishing the PRSP to pre-fund Pension liabilities has no direct fiscal impact. Funding the Trust will restrict the use of funds that are transferred to the irrevocable trust account. Based on estimates for year-end closing results of Fiscal Year 2017-2018, there is no excess revenue for transfer to the Section 115 Trust Program to pre-fund Pension obligations. Future contributions to the Section 115 Trust Program will depend on the year-end closing results in subsequent fiscal years and any one-time monies that the City Council would like to allocate to the PRSP. Other sample funding policies that PRSP participants used include:

Attachment A

- Contribute 50 percent of a given year's realized year end surplus to address pension liability,
- Contribute amount equal to or less than the annual PERS employer contribution in order to allow full access to trust assets at all times,
- "One equals five plan" – contribute \$1 million per year for five years based on the premise that every contribution will save taxpayers \$5 million over 25 years,
- Contribute employer contribution amount equal to the 2.8 percent discount rate (as opposed to the 7.5% rate), with difference going into the Section 115 Trust,
- Maintains a 15 percent general fund reserve and is targeting to make contributions over and above that threshold into the Trust, or
- Use one time revenue source and lower the minimum general fund reserve level.

Total combined administrative, trustee and investment management fees for PARS, U.S. Bank and HighMark Capital Management start at 0.60% for assets under \$5 million and will decrease as assets in the Trust increase. The fees will be paid from the Trust assets.

Alternatives:

As two alternatives to staff recommendation, the City Council may direct staff to contact and negotiate an agreement with one of the other two firms recommended by Bartel Associates, LLC or to not participate in the 115 Trust Program at this time.

Conclusion:

Staff recommends that the City Council adopts a resolution (**Attachment B**) authorizing participation in the Pension Rate Stabilization Program administered by Public Agency Retirement Services to pre-fund pension obligations. |

Attachment B

RESOLUTION NO. 2018 -

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LEMON GROVE, CALIFORNIA AUTHORIZING PARTICIPATION IN THE PENSION RATE STABILIZATION PROGRAM ADMINISTERED BY PUBLIC AGENCY RETIREMENTS SERVICES TO PRE-FUND PENSION OBLIGATIONS

WHEREAS, the City of Lemon Grove participates in a pension plan with CalPERS; and

WHEREAS, as of June 30, 2016, the unfunded actuarial liability (UAL) for the City totaled \$7.4 million; and

WHEREAS, the costs related to the UAL are anticipated to increase in the next three year period; and

WHEREAS, a Section 115 Trust program will help pre-fund the City's rising pension costs and address pension liabilities; and

WHEREAS, staff interviewed three possible firms that provide Section 115 Trust programs and concluded that the Pensions Rate Stabilization Program (PRSP) managed by Public Agency Retirement Services (PARS) is the best fit for the city to utilize; and

WHEREAS, various funding methods may be used to supplement PARS's PRSP program with the City; and

WHEREAS, each fiscal year the City Council will review its funding method to determine if it is the most appropriate method based on the City's fiscal status. |

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lemon Grove, California hereby:

1. Authorizes the City's participation in the PARS Post-Employment Benefits Trust administered by public agency retirement services to pre-fund pension obligations; and
2. Appoints the City Manager or her designee as Plan Administrator to manage and execute all required documentation. |

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Attachment C

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Index Number: 115.00-00

Third Party Communication: None
Date of Communication: Not Applicable

U.S. Bank National Association
c/o Susan Hughes, Vice President
3121 Michelson Drive (Suite 300)
Irvine, CA 92612

Person To Contact:
Robin J. Ehrenberg, ID No. 1000219292
Telephone Number:
(202) 317-5800
Refer Reply To:
CC:TEGE:EOEG:EO3
PLR-146796-14
Date: June 5, 2015

Legend

Trust	=	Public Agencies Post-Employment Benefits Trust
Trust Agreement	=	Public Agencies Post-Employment Benefits Trust Agreement
Trustee	=	U.S. Bank National Association

Dear Ms. Hughes:

This letter responds to a letter from your authorized representative dated December 22, 2014, requesting rulings that (1) the Trust's income is excludable from gross income under section 115 of the Internal Revenue Code (IRC) and (2) the Trust is not required to file annual federal income tax returns under IRC section 6012(a)(4). The Trust represents the facts as follows:

FACTS

The Trust is a multiple employer trust established to enable public-agency employers to fund post-retirement employee benefits. Each participating employer must be a public agency that is a state, political subdivision of a state, or an entity the income of which is excludable from gross income under IRC section 115. The employer's governing body must authorize in writing the adoption of the Trust and the employer must execute the adoption agreement, which approves the Trust's administrator and provides that the agency adopts and agrees to be bound by the Trust Agreement. In the adoption agreement, the employer elects to fund obligations to provide benefits under a post-employment health care plan and contribute to a defined-benefit pension plan maintained by the employer that is qualified under IRC section 401(a). The employer may elect to fund either or both obligations.

Attachment C

PLR-146796-14

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The Trust Agreement provides that assets are held by the Trust for the exclusive purpose of funding participating employers' benefit obligations and defraying the reasonable expenses of the Trust. The Trust's assets may not be used for any other purpose. Each employer's contributions to the Trust, together with any allocable investment earnings and losses, are held in a separate account for that employer. Assets allocated to satisfy an employer's health and welfare benefit obligation or the employer's pension obligation may only be used for purposes of satisfying that particular obligation. The assets held in an employer's account are not available to pay any obligations incurred by any other employer.

The employers appoint the Trustee and the Trust's administrator and may remove the Trustee or the administrator by a two-thirds vote of all employers. The employers may amend the Trust Agreement with the approval of two-thirds of all employers then participating in the Trust. The employers may terminate the Trust by unanimous agreement of all employers.

Upon termination of the Trust, any assets remaining in an employer's account, after satisfaction of benefit and the Trust's obligations are returned to the employer to the extent permitted by law and consistent with the requirements of IRC section 115.

LAW AND ANALYSIS

Issue 1 - IRC section 115(1)

IRC section 115(1) provides that gross income does not include income derived from any public utility or the exercise of any essential governmental function and accruing to a state or any political subdivision thereof.

Rev. Rul. 77-261, 1977-2 C.B. 45, holds that income generated by an investment fund that is established by a state to hold revenues in excess of the amounts needed to meet current expenses is excludable from gross income under IRC section 115(1), because such investment constitutes an essential governmental function. The ruling explains that the statutory exclusion is intended to extend not to the income of a state or municipality resulting from its own participation in activities, but rather to the income of an entity engaged in the operation of a public utility or the performance of some governmental function that accrues to either a state or political subdivision of a state. The ruling points out that it may be assumed that Congress did not desire in any way to restrict a state's participation in enterprises that might be useful in carrying out projects that are desirable from the standpoint of a state government and that are within the ambit of a sovereign to conduct.

Rev. Rul. 90-74, 1990-2 C.B. 34, holds that the income of an organization formed, funded, and operated by political subdivisions to pool various risks (e.g., casualty, public liability, workers' compensation, and employees' health) is excludable from gross income under IRC section 115(1), because the organization is performing an essential governmental function. The revenue ruling states that the income of such an organization is excludable from gross income so long as private interests do not participate in the organization or benefit more than incidentally from the organization. The benefit to the employees of the insurance coverage obtained by the member political subdivisions was deemed incidental to the public benefit.

Through the Trust, participating public agency employers fund health and welfare and pension obligations for retired employees. Each of the Trust's participating employers is required to be a state, political subdivision of a state or an entity the income of which is excludable from gross income under IRC section 115. Providing health, welfare and pension benefits to current and former employees constitutes the performance of an essential government function within the meaning of IRC section 115(1). See Rev. Rul. 90-74 and Rev. Rul. 77-261.

The Trust's income accrues to its participating employers, all of which are political subdivisions of a state or entities the income of which is excludable from gross income under IRC section 115. No private interests will participate in, or benefit from, the operation of Trust, other than as providers of goods or services. The benefit to employees is incidental to the public benefit. See Rev. Rul. 90-74.

In no event, including dissolution, will the Trust's assets be distributed or revert to any entity that is not a state, a political subdivision of a state, or entity the income of which is excludable from its gross income by application of IRC section 115(1).

Issue 2- IRC section 6012(a)(4)

Section 301.7701-1(b) of the Procedure and Administration Regulations (Regulations) provides that the classification of organizations that are recognized as separate entities is determined under sections 301.7701-2, 301.7701-3, and 301.7701-4, unless a provision of the IRC provides for special treatment of that organization.

Section 301.7701-4(a) of the Regulations provides that, in general, an arrangement will be treated as if it can be shown that the purpose of the arrangement is to vest in trustees responsibility for the protection and conservation of property for beneficiaries who cannot share in the discharge of this responsibility and, therefore, are not associates in a joint enterprise for the conduct of business for profit.

The Trust enables public-agency employers to set aside funds to be used to satisfy each employer's separate pension and health and welfare benefit obligations. The

Attachment C

PLR-146796-14

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Trustee is charged with the responsibility of the protection and conservation of the Trust property for the benefit of the beneficiaries of the Trust. The beneficiaries of the Trust cannot share in the discharge of the Trustee's responsibility for the protection and conservation of property and, therefore, are not associates in a joint enterprise for the conduct of business for profit. IRC section 6012(a)(4) provides that every trust having for the taxable year any taxable income or having gross income of \$600 or more, regardless of the amount of taxable income, shall make returns with respect to income taxes under Subtitle A.

Based solely on the facts and representations submitted by the Trust, we conclude that:

1. Because the income of the Trust derives from the exercise of an essential governmental function and will accrue to a state or a political subdivision thereof, the Trust's income is excludable from gross income under IRC section 115(1).
2. The Trust is classified as a trust within the meaning of IRC section 7701(a) and section 301.7701-4(a) of the Regulations. Because Trust's income is excludable from gross income under IRC section 115, the Trust is not required by IRC section 6012(a)(4) to file an annual income tax return.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. This ruling concerns only the federal tax treatment of the Trust's income and may not be cited or relied upon by any taxpayer, including the Trust, employers participating in the Trust, and any recipients of benefits paid under the terms of the Trust, as to any matter relating to the taxation of accident or health contributions or benefits.

This ruling is directed only to the taxpayer who requested it. IRC section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

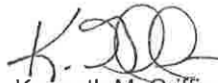
A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

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The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,



Kenneth M. Griffin
Branch Chief, Exempt Organizations Branch 3
(Tax Exempt and Government Entities)

cc: Marcus Wu
Pillsbury Winthrop Shaw Pittman LLP
12255 El Camino Real, Suite 300
San Diego, CA 92130-4088

Paul Marmolejo
Director, Office of Federal, State and Local Governments
SE:T:GE:FSL



PARS DIVERSIFIED PORTFOLIOS CONSERVATIVE

Q1 2018

WHY THE PARS DIVERSIFIED CONSERVATIVE PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance.

Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

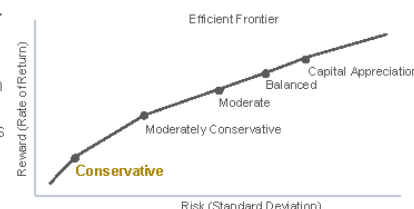
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide a consistent level of inflation-protected income over the long-term. The major portion of the assets will be fixed income related. Equity securities are utilized to provide inflation protection.



ASSET ALLOCATION — CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	5 – 20%	15%	16%
Fixed Income	80 – 95%	80%	78%
Cash	0 – 20%	5%	6%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	-1.02%	Current Quarter*	-1.17%
Blended Benchmark**	-0.89%	Blended Benchmark**	-0.89%
Year To Date	-1.02%	Year To Date	-1.17%
Blended Benchmark	-0.89%	Blended Benchmark	-0.89%
1 Year	3.69%	1 Year	2.81%
Blended Benchmark	2.83%	Blended Benchmark	2.83%
3 Year	2.72%	3 Year	2.19%
Blended Benchmark	2.33%	Blended Benchmark	2.33%
5 Year	3.17%	5 Year	2.84%
Blended Benchmark	2.99%	Blended Benchmark	2.99%
10 Year	4.23%	10 Year	3.66%
Blended Benchmark	3.59%	Blended Benchmark	3.59%

* Returns less than 1-year are not annualized. ** Breakdown for Blended Benchmark: 7.5% S&P500, 1.5% Russell Mid Cap, 2.5% Russell2000, 1% MSCI EM FREE, 2% MSCI EAFE, 52.25% BC US Agg, 25.75% ML 1-3 Yr US Corp Govt, 2% US High Yield Master II, 0.5% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 12% S&P 500, 1% Russell2000, 2% MSCI EAFE, 40% ML 1-3 Year Corp Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 15% S&P 500, 40% ML 1-3Yr Corp Govt, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)		Index Plus (Passive)	
2008	-9.04%	2008	-6.70%
2009	15.59%	2009	10.49%
2010	8.68%	2010	7.87%
2011	2.19%	2011	3.70%
2012	8.45%	2012	6.22%
2013	3.69%	2013	3.40%
2014	3.88%	2014	4.32%
2015	0.29%	2015	0.06%
2016	4.18%	2016	3.75%
2017	6.73%	2017	5.52%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	07/2004	Inception Date	07/2004
No of Funds in Portfolio	19	No of Funds in Portfolio	12

Attachment D

HOLDINGS

HighMark Plus (Active)

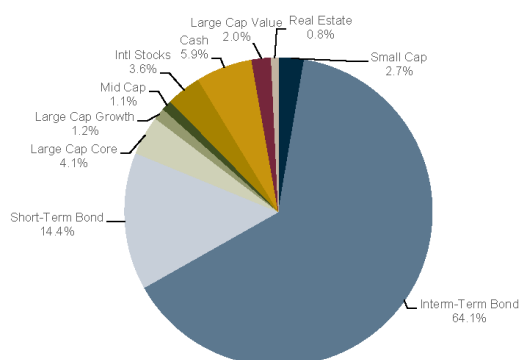
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Baidard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
Nationwide Loomis Bond
DoubleLine Core Fixed Income
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of March 31, 2018, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
Suite 1600
San Francisco, CA 94104
800-582-4734

www.highmarkcapital.com

ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with more than \$13.8 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®

Senior Portfolio Manager
Investment Experience: since 1994
HighMark Tenure: since 1997
Education: MBA, University of Southern California; BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®

Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®

Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

Christiane Tsuda

Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®

Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2007
Education: BA, University of California, Santa Barbara

Randy Yurchak, CFA®

Senior Portfolio Manager
Investment Experience: since 2002
HighMark Tenure: since 2017
Education: MBA, Arizona State University; BS, University of Washington

Asset Allocation Committee

Number of Members: 16
Average Years of Experience: 27
Average Tenure (Years): 14

Manager Review Group

Number of Members: 6
Average Years of Experience: 19
Average Tenure (Years): 7



PARS DIVERSIFIED PORTFOLIOS MODERATELY CONSERVATIVE

Q1 2018

WHY THE PARS DIVERSIFIED MODERATELY CONSERVATIVE PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

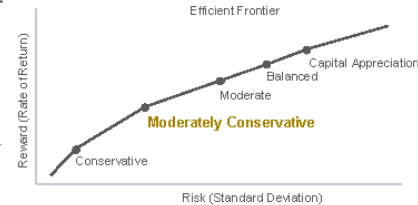
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide current income and moderate capital appreciation. The major portion of the assets is committed to income-producing securities. Market fluctuations should be expected.



ASSET ALLOCATION — MODERATELY CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	20 - 40%	30%	31%
Fixed Income	50 - 80%	65%	66%
Cash	0 - 20%	5%	3%

ANNUALIZED TOTAL RETURNS

(Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	-0.91%	Current Quarter*	-1.13%
Blended Benchmark**	-0.93%	Blended Benchmark**	-0.93%
Year To Date	-0.91%	Year To Date	-1.13%
Blended Benchmark	-0.93%	Blended Benchmark	-0.93%
1 Year	5.73%	1 Year	4.61%
Blended Benchmark	4.78%	Blended Benchmark	4.78%
3 Year	3.83%	3 Year	3.39%
Blended Benchmark	3.59%	Blended Benchmark	3.59%
5 Year	4.47%	5 Year	4.26%
Blended Benchmark	4.53%	Blended Benchmark	4.53%
10 Year	5.06%	10 Year	4.50%
Blended Benchmark	4.67%	Blended Benchmark	4.67%

* Returns less than 1-year are not annualized. ** Breakdown for Blended Benchmark: 15.5% S&P500, 3% Russell Mid Cap, 4.5% Russell2000, 2% MSCI EM FREE, 4% MSCI EAFE, 49.25% BC US Agg, 14% ML 1-3 Yr US CorpGovt, 1.75% US High Yield Master II, 1% iShares REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 25% S&P 500, 1.5% Russell2000, 3.5% MSCI EAFE, 25% ML 1-3 Year Corp/Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 30% S&P 500, 25% ML 1-3Yr CorpGovt, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)		Index Plus (Passive)	
2008	-15.37%	2008	-12.40%
2009	18.71%	2009	11.92%
2010	10.46%	2010	9.72%
2011	1.75%	2011	3.24%
2012	10.88%	2012	8.24%
2013	7.30%	2013	6.78%
2014	4.41%	2014	5.40%
2015	0.32%	2015	-0.18%
2016	4.93%	2016	5.42%
2017	9.56%	2017	8.08%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	08/2004	Inception Date	05/2005
No of Funds in Portfolio	19	No of Funds in Portfolio	12

Attachment D

HOLDINGS

HighMark Plus (Active)

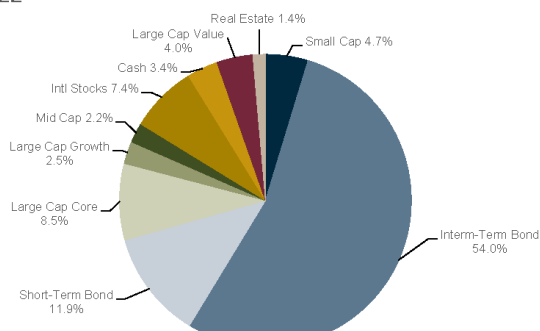
Columbia Contrarian Core Z
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iShares Russell Mid-Cap ETF
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Nationwide Baidard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
Nationwide Loomis Bond
DoubleLine Core Fixed Income
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
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Holdings are subject to change at the discretion of the investment manager.

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Moderately Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.80% annual management fee based on a sliding scale. As of March 31, 2018, the blended rate is 0.55%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

HIGHMARK CAPITAL MANAGEMENT

350 California Street
Suite 1600
San Francisco, CA 94104
800-582-4734

www.highmarkcapital.com

ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with more than \$13.8 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®

Senior Portfolio Manager

Investment Experience: since 1994

HighMark Tenure: since 1997

Education: MBA, University of Southern California;

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Senior Portfolio Manager

Investment Experience: since 1985

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Christiane Tsuda

Senior Portfolio Manager

Investment Experience: since 1987

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Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®

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Randy Yurchak, CFA®

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PARS DIVERSIFIED PORTFOLIOS MODERATE

Q1 2018

WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

Comprehensive Investment Solution

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Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

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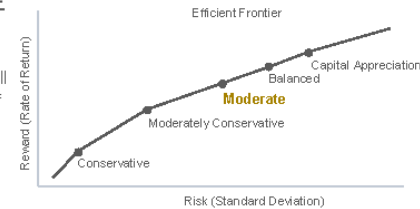
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Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide growth of principal and income. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.



ASSET ALLOCATION — MODERATE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	40 - 60%	50%	51%
Fixed Income	40 - 60%	45%	48%
Cash	0 - 20%	5%	3%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	-0.73%	Current Quarter*	-1.02%
Blended Benchmark**	-0.84%	Blended Benchmark**	-0.84%
Year To Date	-0.73%	Year To Date	-1.02%
Blended Benchmark	-0.84%	Blended Benchmark	-0.84%
1 Year	8.34%	1 Year	7.15%
Blended Benchmark	7.29%	Blended Benchmark	7.29%
3 Year	5.37%	3 Year	4.92%
Blended Benchmark	5.23%	Blended Benchmark	5.23%
5 Year	6.28%	5 Year	6.07%
Blended Benchmark	6.52%	Blended Benchmark	6.52%
10 Year	5.87%	10 Year	5.68%
Blended Benchmark	5.86%	Blended Benchmark	5.86%

* Returns less than 1-year are not annualized. **Breakdown for Blended Benchmark: 26.5% S&P500, 5% Russell Mid Cap, 7.5% Russell 2000, 3.25% MSCI EM FREE, 6% MSCI EAFE, 38.50% BC US Agg, 10% ML 1-3 Yr US Corp/Govt, 1.50% US High Yield Master II, 1.75% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 43% US High Yield Russell 2000, 5% MSCI EAFE, 15% ML 1-3 Year Corp/Govt, 30% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 50% S&P 500, 15% ML 1-3 Yr Corp/Govt, 30% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)		Index Plus (Passive)	
2008	-22.88%	2008	-18.14%
2009	21.47%	2009	18.05%
2010	12.42%	2010	11.77%
2011	0.55%	2011	2.29%
2012	12.25%	2012	10.91%
2013	13.06%	2013	12.79%
2014	4.84%	2014	5.72%
2015	0.14%	2015	-0.52%
2016	6.44%	2016	7.23%
2017	13.19%	2017	11.59%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	10/2004	Inception Date	05/2006
No of Funds in Portfolio	19	No of Funds in Portfolio	12

Attachment D

HOLDINGS

HighMark Plus (Active)

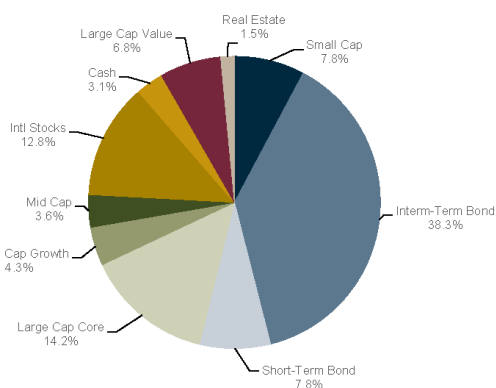
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Hartford Schroders Emerging Markets Eq
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PIMCO Total Return
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First American Government Obligations Z

Index Plus (Passive)

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Average Years of Experience: 19

Average Tenure (Years): 7



PARS DIVERSIFIED PORTFOLIOS BALANCED

Q1 2018

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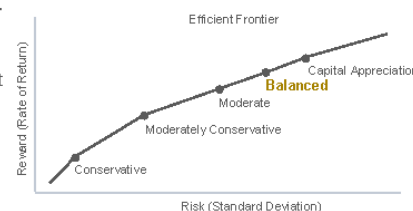
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The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

To provide growth of principal and income. While dividend and interest income are an important component of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return.



ASSET ALLOCATION — BALANCED PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	50 – 70%	60%	61%
Fixed Income	30 – 50%	35%	36%
Cash	0 – 20%	5%	3%

ANNUALIZED TOTAL RETURNS

(Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	-0.61%	Current Quarter*	-1.04%
Blended Benchmark**	-0.81%	Blended Benchmark**	-0.81%
Year To Date	-0.61%	Year To Date	-1.04%
Blended Benchmark	-0.81%	Blended Benchmark	-0.81%
1 Year	9.98%	1 Year	8.35%
Blended Benchmark	8.59%	Blended Benchmark	8.59%
3 Year	6.11%	3 Year	5.69%
Blended Benchmark	6.05%	Blended Benchmark	6.05%
5 Year	7.22%	5 Year	6.97%
Blended Benchmark	7.52%	Blended Benchmark	7.52%
10 Year	6.27%	10 Year	6.10%
Blended Benchmark	6.51%	Blended Benchmark	6.51%

* Returns less than 1-year are not annualized. ** Breakdown for Blended Benchmark: 32% S&P500, 6% Russell Mid Cap, 9% Russell 2000, 4% MSCI EM FREE, 7% MSCI EAFE, 27% BC US Agg, 6.75% ML 1-3 Yr US Corp/Govt, 1.25% US High Yield Master II, 2% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 51% S&P500, 3% Russell 2000, 6% MSCI EAFE, 5% ML 1-3 Year Corp/Govt, 30% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 60% S&P500, 5% ML 1-3Yr Corp/Govt, 30% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)		Index Plus (Passive)	
2008	-25.72%	2008	-23.22%
2009	21.36%	2009	17.62%
2010	14.11%	2010	12.76%
2011	-0.46%	2011	1.60%
2012	13.25%	2012	11.93%
2013	16.61%	2013	15.63%
2014	4.70%	2014	6.08%
2015	0.04%	2015	-0.81%
2016	6.82%	2016	8.26%
2017	15.46%	2017	13.39%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	10/2006	Inception Date	10/2007
No of Funds in Portfolio	19	No of Funds in Portfolio	12

Attachment D

HOLDINGS

HighMark Plus (Active)

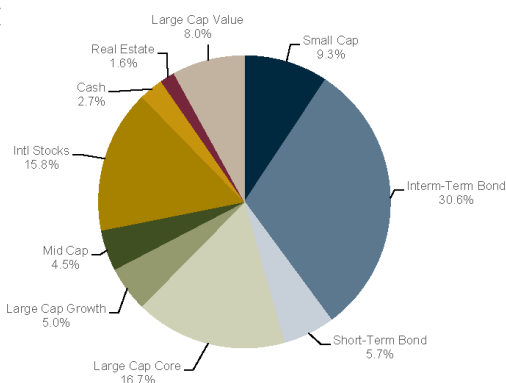
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STYLE



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The composite name has been changed from PARS Balanced/Moderately Aggressive to PARS Balanced on 5/1/2013. The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of March 31, 2018, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT Index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUFG). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. MUFG, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.

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ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with more than \$13.8 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA®

Senior Portfolio Manager

Investment Experience: since 1994

HighMark Tenure: since 1997

Education: MBA, University of Southern California;

BA, University of Southern California

Salvatore "Tory" Milazzo III, CFA®

Senior Portfolio Manager

Investment Experience: since 2004

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Senior Portfolio Manager

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Education: BA, International Christian University, Tokyo

Anne Wimmer, CFA®

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Randy Yurchak, CFA®

Senior Portfolio Manager

Investment Experience: since 2002

HighMark Tenure: since 2017

Education: MBA, Arizona State University;

BS, University of Washington

Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 27

Average Tenure (Years): 14

Manager Review Group

Number of Members: 6

Average Years of Experience: 19

Average Tenure (Years): 7



PARS DIVERSIFIED PORTFOLIOS CAPITAL APPRECIATION

Q1 2018

WHY THE PARS DIVERSIFIED CAPITAL APPRECIATION PORTFOLIO?

Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

Flexible Investment Options

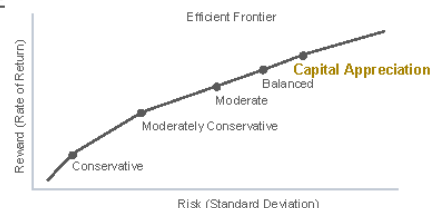
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

INVESTMENT OBJECTIVE

The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.



ASSET ALLOCATION — CAPITAL APPRECIATION PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	65 - 85%	75%	76%
Fixed Income	10 - 30%	20%	22%
Cash	0 - 20%	5%	2%

ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

Current Quarter*	-0.38%
Blended Benchmark**	-0.75%
Year To Date	-0.38%
Blended Benchmark	-0.75%
1 Year	11.28%
Blended Benchmark	10.65%
3 Year	7.18%
Blended Benchmark	7.22%
5 Year	8.77%
Blended Benchmark	8.91%
Inception to Date (111-Mos.)	10.55%
Blended Benchmark	11.22%

* Returns less than 1-year are not annualized. ** Breakdown for Blended Benchmark: 39.5% S&P500, 7.5% Russell Mid Cap, 10.5% Russell 2000, 5.25% MSCI EM FREE, 10.25% MSCI EAFE, 16% BC US Agg, 3% ML 1-3 Yr US Corp Gov't, 1% US High Yield Master II, 2% Wilshire REIT, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

2008	N/A%
2009	23.77%
2010	12.95%
2011	-1.35%
2012	13.87%
2013	20.33%
2014	6.05%
2015	-0.27%
2016	8.81%
2017	16.72%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	01/2009	Inception Date	N/A
No of Funds in Portfolio	19	No of Funds in Portfolio	12

Attachment D

HOLDINGS

HighMark Plus (Active)

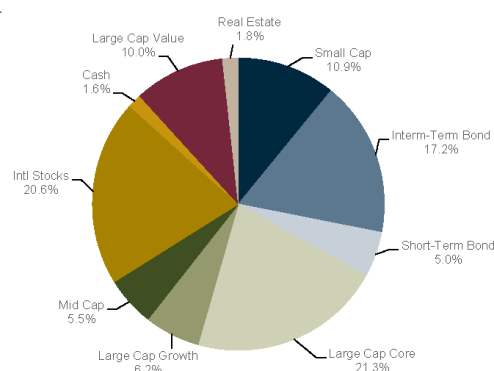
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Baidard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
Nationwide Loomis Bond
DoubleLine Core Fixed Income
First American Government Obligations Z

Index Plus (Passive)

iShares Core S&P 500 ETF
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
Vanguard FTSE Emerging Markets ETF
Vanguard Short-Term Invest-Grade Adm
iShares Core U.S. Aggregate
First American Government Obligations Z

Holdings are subject to change at the discretion of the investment manager.

STYLE



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Attachment E

Public Agency Retirement Services	
Founded in	1984
Headquarters	Newport Beach
Office Locations in California	Newport Beach – PARS San Francisco – HighMark
Core Business	Administration of 115 Trust for prefunding OPEB/Pension
Programs	Section 115 Trust for Pensions & OPEB, supplemental defined benefits programs, alternate retirements systems for part-time employees, customized defined contribution programs to supplement CalPERS
IRS Private Letter Ruling	Yes; multiple employer
Investment Manager	HighMark Capital Management
Trustee	US Bank (Los Angeles)
Plans Under Administration	1,400+ plans for 800+ public agencies only
Section 115 Pension & OPEB Trust Clients	250+, including 147 for pension prefunding (such as Coronado, Imperial County, La Mesa, Lemon Grove School District, National City, and Solana Beach)
Annual Fees for Assets under \$5 million	Approx. \$26,500
Investment Assets Under Administration	Approx. \$2.8 billion (PARS) Approx. \$14 billion (HighMark)
Investment Options	5 risk tolerance levels (active or passive), and custom option
Minimums	No minimum contribution, fee, start up fees, or trade/transactions fees;